

I. STABILIZATION FUND and GENERAL RESERVE ACCOUNT

A. Definition and Purpose:

1. [Stabilization Funds](#) are one or more special [reserve accounts](#) allowed by [Massachusetts General Law Ch. 40, Sections 5A, 5B, 5C](#) "to provide for extraordinary or unforeseen expenditures".

a) Cities and towns may appropriate an amount not to exceed ten percent of the amount raised the preceding fiscal year by taxation of real estate and tangible personal property.

b) The aggregate amount in all Stabilization Funds may not exceed ten percent of the equalized valuation of the Town.

c) The Town Treasurer shall be the custodian of all such funds and may deposit the proceeds and all interest shall be added to and become part of the fund.

d) General stabilization funds may be for any lawful purpose, including without limitation an approved school project under chapter 70B or any other purpose for which the city, town or district may lawfully borrow money.

e) Designated stabilization funds are earmarked to be used for a specific purpose. An example of a designated stabilization fund is the Zoning Incentive Stabilization fund, established to fund projects specifically benefitting the area around the Tri-Town Landing development.

f) Any appropriation of funds into or out of any such fund(s) shall be approved by two-thirds vote, at an Annual or Special Town Meeting.

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B. Stabilization Fund Policy/Guidelines:

1. Fund Balances: A minimum balance equal to five percent of the current [omnibus budget](#) should be maintained in the aggregate of the general stabilization fund and all dedicated stabilization fund(s) of the Town. The Town should maintain a balance in the general stabilization fund of no less than four percent of the prior year's omnibus budget. The total of all fund balances should not exceed ten percent of the prior year's omnibus budget.
2. Withdrawals from the Stabilization Fund:
 - a) Withdrawals from the stabilization fund may be appropriated for any lawful purpose.
 - b) Because funding of stabilization fund(s) may include funds from [non-recurring revenue](#) sources (like free cash), withdrawals should only be used to mitigate a non-recurring, extra-ordinary, catastrophic or emergency event or events that cannot be supported by current general fund appropriations.
 - c) Withdrawals of funds should be limited when possible to the amount available above the five percent minimum fund balance.
 - d) Any appropriations from this fund shall require a two-thirds vote at an Annual Town Meeting or a Special Town Meeting.
3. Replenishing the fund:
 - a) When withdrawals from the Stabilization Fund result in a balance that is below the minimum level of five percent of the current omnibus budget, the Town Manager shall develop a detailed plan that will replenish the fund until it reaches at least five percent of the omnibus budget as expeditiously as practicable, ideally a period not to exceed three years.
 - b) When increases in proposed omnibus budgets result in a balance in the Stabilization Fund(s) that is less than five percent of the proposed omnibus budget level, sufficient money should be allocated in the proposed omnibus budget to increase the stabilization fund(s) balance to at least five percent of the proposed omnibus budget. If this is not possible, the Town Manager shall develop a plan that replenishes the Stabilization Fund balance to a level that is no less than five percent of the proposed budget level as expeditiously as practicable, ideally a period not to exceed three years.

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C. General Reserve Account (Fund)

1. [Massachusetts General Law Ch. 40, Section 5C, 6](#) allows towns to establish [General Reserve Funds](#) “to provide for extraordinary or unforeseen expenditures”. Further the law limits the General Reserve Fund to an amount not to exceed five percent of a town’s tax levy for the preceding year.
2. Before the Town expends funds from this General Reserve Fund to pay extraordinary or unforeseen expenses, the Town should employ other funding mechanisms (e.g. budgetary transfers) to pay these expenses.
3. The Town’s General Reserve Fund balance is currently set at \$50,000, and the level should be set annually as part of the budget review process, but it should not exceed one-half of one percent of the current omnibus budget for the Town.

◆ Note:

- [Bond rating](#) agencies rate our Town more favorably if we maintain a healthy balance in the stabilization fund and other reserve type accounts, and adhere to the financial policies we have established.

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II. FREE CASH

A. [Free Cash](#), Definition, Process of Establishing

1. Free Cash is the remaining, unrestricted funds of operations of the Town's previous fiscal year net after certain revenue deficits (e.g. unpaid property taxes). Free cash is a non-recurring source of revenue. It includes:

- a) Unexpended Free Cash from the previous year,
- b) Actual receipts in excess of revenue estimates, and
- c) Unspent amounts in budget line-items.

B. Provided monies from these three sources are neither [encumbered](#) nor reserved, they comprise the Town's [undesignated fund balance](#) [UFB] at the end of the previous fiscal year.

1. The Town cannot spend monies in the UFB until the Massachusetts Department of Revenue [DOR] certifies that portion of the UFB is available to be expended by the Town.
2. Certification of the UFB by the DOR involves identifying if the Town has had revenue short-falls from the previous fiscal year, (e.g. unpaid property taxes) or other revenue deficits. If so, the Town should apply money from the UFB equal to the amount of these revenue deficits, or—if revenue deficits exceed the amount of the deficits in revenue from the previous year—the entire amount in the UFB.
3. That portion of the UFB that the DOR certifies becomes Free Cash, which the Town can spend.

C. Priorities for Applying Free Cash:

1. The highest priority use of Free Cash should be to increase the balance of the Stabilization Account if necessary to a level of at least five percent of the current fiscal year omnibus budget.
2. The next highest priority use of Free Cash is to fund purchases of materials needed to repair and/or replace town roads and signage. These purchases should be limited to the amount of monies remaining in the Free Cash Account or the amount of materials that the Department of Public Works [DPW] personnel and equipment can realistically be expected to utilize in the current fiscal year.
3. Any monies that remain in Free Cash may be used to fund one-time expenditures for specific departments and/or special projects at the discretion of the Town Manager, subject to appropriation by Town Meeting.

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D. Because Free Cash is [non-recurring revenue](#), it should not be used to fund any personnel, program, or initiative that would require expenditures in subsequent fiscal years.

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III. CAPITAL PROJECTS

A. Capital Projects: Definition, criteria

1. Capital Projects (also referred to as [capital assets](#)) are any tangible item that costs \$10,000, or more, and has a useful life of three years or longer.
2. Individual items that cost at least \$10,000 and groups of items of the same purpose that cost at least \$10,000 are both capital projects.

B. Capital Plan: Acquisitions and Expenditures

1. The Capital Plan includes all proposed capital projects.
 - a) This includes projects proposed but not yet acquired in prior fiscal years and those projects proposed during the current fiscal year.
 - b) Initial purchase of a group of items to establish a new program or new use shall be in the Capital Plan, with sustaining future purchases to be handled through the departmental operating budget unless these re-purchases meet the requirements of capital projects set forth in Section III. A. 1 and .2 above.
 - c) Each submittal of each item to the Capital Planning Committee shall include a financial impact statement regarding its effect on the relevant departmental operating budget(s).
 - d) All technology purchases (exclusive of software) are aggregated and included as capital requests, as a part of the fiscal year capital plan.
2. Expenditures for capital projects:
 - a) Expenditures to acquire capital assets that do not involve financing through a debt exclusion override vote (see section 2. (f) below) will be presented to any Town Meeting for approval or disapproval.
 - b) If costs of any approved capital project exceed the amount voted for at the Town Meeting, the department which will use the capital equipment may pay the additional costs from their operating budget.
 - c) Another option is that, because the capital budget is presented to Town Meeting as a lump sum, money may be moved from one item to another as necessary after Town Meeting without further approval from a subsequent Town Meeting. The Town Accountant should notify the Capital Planning Committee of any reallocation of funds within the capital budget from one capital project to another.

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d) If a capital project cannot be acquired for the amount approved at a Town Meeting, and the department cannot pay the additional cost out of their current budget (see III. B. 2. c. above) the amount for the capital project may remain in the original approved article, and a request for the additional amount needed may be added to the original approved article and presented to be voted on at a subsequent Town Meeting.

e) Any unspent monies for capital expenditures that are less than the amount appropriated will be applied in the following fiscal year to another capital project. If these monies are from the unexpended balance of a loan than the Town may appropriate this balance to another capital project. The Town will attempt to insure that the term of borrowing for the new capital project is of equal or shorter duration than the projected life of that project.

IV. Financing Large Capital Projects (e.g. buildings): In cases that a proposed capital project or acquisition is sufficiently costly, a temporary increase (not to exceed 30 years—(see [MGL Part I, Title VII, Chapter 44, Section 7](#)) in the tax levy may be used to fund the project or acquisition. This is a [Capital Outlay Expenditure Exclusion](#), also referred to as “a debt exclusion override”. Debt exclusion overrides require:

- A. Approval by the Board of Selectmen by two-thirds vote; and,
- B. Approval by two-thirds (refer to MGL Part I, Title VII, Chapter 44, Section 7—link above) vote at Town Meeting; and,
- C. Approval by a simple majority of a town vote at the ballot.

V. When the Town finances purchases of capital assets through borrowing, the term of borrowing should not exceed the anticipated useful life of the capital asset.

VI. The Capital Planning Process

- A. The Capital Planning Committee (CPC) creates a Capital Plan that consists of all capital requests made by each town department for the next five fiscal years.
- B. The CPC reviews all the capital project requests as a group.
- C. Then they meet with each department head to discuss and review the capital project requests that department made.
- D. Based on these individual meetings, the CPC prioritizes all the capital project requests for the next fiscal year and presents the prioritized list to the Town Manager.
- E. The Town Manager may modify and or add to this list of capital projects as part of the proposed budget for the next fiscal year. This budget will be presented at the Annual Town Meeting, amended as necessary to reflect the will of the Town Meeting, and voted on.

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IV. REGULAR BORROWING, DEBT BURDEN

A. Regular Borrowing, Definition and Purposes

1. [Regular Borrowing](#) is borrowing not funded by a [debt exclusion override](#), which is also called a Capital Outlay Expenditure Exclusion.
2. The Town may choose to fund the purchase of an asset through regular borrowing, provided the asset:
 - a) Costs more than \$100,000, and
 - b) Has a projected useful life of no less than ten years.

B. Limitations and terms

1. The aggregate annual [debt service](#) (principal and interest payments) of all assets financed in this manner does not exceed three percent of the omnibus budget or four percent of the tax [levy](#), whichever is the lower amount.
2. The term of the bond to pay for an asset should not exceed the anticipated useful life of the asset.

C. Process and Borrowing to Pay for emergencies:

1. In accordance with [MGL Ch. 44, Section 2](#), and any other applicable laws, any town may authorize the debt to acquire any asset(s) through non-excluded debt only by at least a two-thirds vote in favor at a Town Meeting.
2. In the case of borrowing to pay costs arising from an emergency situation, the Town should repay the debt over as short a period as is practicable up to a maximum of five years, considering the effect that funds to repay this debt may affect the Town's ability to pay operating expenses.

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Terms are from the Dept. of Revenue, [Municipal Finance Glossary](#)

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Amortization	The gradual repayment of an obligation over time and in accordance with a predetermined payment schedule.
Bond Rating (Municipal)	A credit rating assigned to a municipality to help investors assess the future ability, legal obligation, and willingness of the municipality (bond issuer) to make timely debt service payments. Stated otherwise, a rating helps prospective investors determine the level of risk associated with a given fixed-income investment. Rating agencies, such as Moody's and Standard and Poors, use rating systems, which designate a letter or a combination of letters and numerals where AAA is the highest rating and C1 is a very low rating.
Capital Asset	All tangible property used in the operation of government, which is not easily converted into cash, and has an initial useful life extending beyond a single financial reporting period. Capital assets include land and land improvements; infrastructure such as roads, bridges, water and sewer lines; easements; buildings and building improvements; vehicles, machinery and equipment. Communities typically define capital assets in terms of a minimum useful life and a minimum initial cost.
Capital Outlay Expenditure Exclusion (aka) Debt Exclusion Override	<p>A temporary increase in the tax levy to fund a capital project or make a capital acquisition. Exclusions require two-thirds vote of the selectmen and a majority vote at a community-wide referendum.</p> <p>The exclusion is added to the tax levy only during the year(s) in which the project is being funded and may increase the tax levy above the levy ceiling.</p>
Capital Projects Fund	Fund type used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).
Debt Authorization	An action taken by a community through a referendum vote to raise the funds necessary to pay debt service costs for a particular project from the property tax levy, but outside the limits under Proposition 2½. By approving a debt exclusion, a community calculates its annual levy limit under Proposition 2½, then adds the excluded debt service cost. The amount is added to the levy limit for the life of the debt only and may increase the levy above the levy ceiling.
Debt Service	The repayment cost, usually stated in annual terms and based on an amortization schedule, of the principal and interest on any particular bond issue.
Encumbrance	A reservation of funds to cover obligations arising from purchase orders, contracts, or salary commitments that is chargeable to, but not yet paid from, a specific appropriation account.

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Equalized Valuations (EQVs)	The determination of an estimate of the full and fair cash value (FFCV) of all property in the Town as of a certain taxable date. EQVs have historically been used as a variable in distributing some state aid accounts and for determining county assessments and other costs. The Commissioner of Revenue, in accordance with MGL Ch. 58 §10C, is charged with the responsibility of biannually determining an equalized valuation for each city and town in the Commonwealth.
Free Cash	Remaining, unrestricted funds from operations of the previous fiscal year including unexpended free cash from the previous year, actual receipts in excess of revenue estimates shown on the tax recapitulation sheet, and unspent amounts in budget line-items. Unpaid property taxes and certain deficits reduce the amount that can be certified as free cash. The calculation of free cash is based on the balance sheet as of June 30, which is submitted by the community's auditor, accountant, or comptroller. Important: free cash is not available for appropriation until certified by the Director of Accounts. (Also referred to as Budgetary Fund Balance)
Levy	The amount a community raises through the property tax. The levy can be any amount up to the levy limit, which is re-established every year in accordance with Proposition 2½ provisions.
Non-Recurring Revenue Source	A one-time source of money available to a city or town. By its nature, a non-recurring revenue source cannot be relied upon in future years. Therefore, such funds should not be used for operating or other expenses that continue from year to year.
Operating Budget (Omnibus Budget)	A plan of proposed expenditures for personnel, supplies, and other expenses for the coming fiscal year. Note: Omnibus Budget refers to the aggregate of all the individual department budgets that comprise the total Town budget.
Regular Borrowing	Borrowing that is not funded by a Capital Outlay Expenditure Exclusion Process —that is, a temporary increase in the tax levy.
Reserve Account(s) (Fund(s))	An amount set aside annually within the budget of a town (not to exceed five percent of the tax levy for the preceding year) to provide a funding source for extraordinary or unforeseen expenditures. In a town, the finance committee can authorize transfers from this fund for “extraordinary or unforeseen” expenditures. Other uses of the fund require budgetary transfers by town meeting.

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Stabilization Fund	A fund designed to accumulate amounts for capital and other future spending purposes, although it may be appropriated for any lawful purpose (MGL Ch. 40 §5B). Communities may establish one or more stabilization funds for different purposes and may appropriate into them in any year an amount not to exceed ten percent of the prior year's tax levy. The total of all stabilization fund balances shall not exceed ten percent of the community's equalized value, and any interest shall be added to and become a part of the funds. A two-thirds vote of town meeting or city council is required to establish, amend the purpose of, or appropriate money into or from the stabilization fund.
Undesignated Fund Balance	Monies in the various government funds as of June 30 that are neither encumbered nor reserved, and are therefore available for expenditure once certified as part of free cash.